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SUBJECT: BOSNIA: MOSTAR BUSINESSPEOPLE WELCOME EU ACCESSION

Classified By: Economic Counselor Eric Luftman for reasons 1.4 b and d

SUMMARY

1. (C) In a series of discussions in Mostar, businesspeople from both large and small enterprises expressed positive attitudes about the benefits of Bosnia's eventual EU accession, particularly access to new markets and capital. All of the Mostar interlocutors noted a drop in consumer demand in 2009, though some were still moving forward with new investments and planned capital improvements. None noted a capital crunch from commercial banks, though they complained about sky-high interest rates, other informal barriers to financing and lack of support from the Federation Government, and in particular, from the Federation Development Bank.

EU ACCESSION: BENEFITS OUTWEIGH RISKS TO PRIVATE SECTOR

2. (SBU) A common theme in discussions with a cross-section of Mostar businesses on February 9, was the expectation of a more resilient Bosnian economy as a benefit of EU accession. Ivo Lasic, CEO of the aluminum producer Aluminij -- Bosnia's largest exporter and Mostar's largest employer -- told us that EU accession could only bring benefits to Bosnia, both politically and economically. Although Aluminij imports from the U.S. a large amount of its inputs needed to create its aluminum semi-finished products, most of its customers are in Europe. In three separate conversations, local agricultural producers believed that EU integration benefits outweighed any concern over competition. They all noted that new markets would be the answer to Bosnia's recession, allowing them to diversify their consumer base and making them more resilient against future economic downturns.

"EU OR NO, WE STILL NEED MORE SUPPORT FROM OUR GOVERNMENT"

3. (SBU) Although not couching it as a concern over future competition, all of those with whom we spoke noted that they do not see enough support from the Federation Government in dealing with an uneven playing field. The farmers, in particular, noted that they are competing with imported produce, table grapes from Italy for example, that enjoy EU subsidies. Federation Minister of Agriculture Damir Ljubic (HDZ-1990), who participated in our three meetings with farmers, noted that the Federation provides some subsidies to Bosnian farmers for raw materials, but that the assistance is not comparable to that provided in the EU. He also explained that the lack of agricultural market regulation in Bosnia subjects farmers to broader price fluctuations than exist in other European economies. Hamo Badzak, a produce farmer, agreed and added that this is why his focus is on exporting his produce to Croatia,

where pricing is more stable. Aluminij CEO Lasic, though in a completely different position from the other businesses, was also looking to the Federation Government for subsidies -- specifically protection from electricity price fluctuations, which currently account for 47 percent of the total cost of production.

FINANCING STILL A PROBLEM

¶4. (SBU) All agreed that financing was still a problem, despite government and commercial bank efforts to improve access to capital. Table grape grower Miroslav Golemac noted that there is plenty of money available in commercial banks; the problems are the sky-high interest rates, rates fluctuating without warning, and significantly higher administrative fees. Unfortunately, even as new investments are becoming more expensive, the farmers have seen a decrease in consumer demand in the Bosnian market. A dairy producer noted a 20 percent drop in the second half of 2009, a trend which he expects will continue through ¶2010. He hopes to offset this drop in revenue with exports to Croatia that should increase with a surge of summer tourism there. (Note: At the macro level, EBRD announced on February 9 a 4-5 percent decline in Bosnia's GDP for 2009 and a projected increase of 0.6 percent for 2010. Although the 2009 decline is not as severe as that seen in neighboring countries, Bosnia's recovery in 2010 is expected to lag behind the region. End note.)

ONLY GAME IN TOWN: FEDERATION DEVELOPMENT BANK

¶5. (C) A common source of frustration for the agricultural producers was lack of access to credit from the Federation Development Bank (FDB), which in theory was designed to assist companies like theirs. At the same time, they were visibly reluctant to criticize the bank. One of them noted that he had requested KM 2 million (USD 1.47 million) to add storage facilities to his lucrative table grape business, but had been approved for only KM 1 million (USD 74 million), without an explanation. The dairy producer's loan request to purchase new cattle for his farm was denied. Agricultural Minister Ljubic -- of the Croat opposition party HDZ 1990 -- noted that FDB financing that should be available specifically for agriculture projects, instead went to projects like the construction of the "Avaz Twist Tower" in Sarajevo, owned by media mogul Fahrudin Radoncic. He continued that FDB loans are only available to favorites of the Party for Democratic Action (SDA) and Croatian Democratic Union (HDZ).

COMMENT

¶6. (C) We were pleased to see positive attitudes toward EU accession in the commercial sector, particularly in light of the lack of traction EU accession seems to have with broader segments of Bosnian society. We hope that this segment of society holds politicians accountable in October's elections for failure to make reforms necessary to bring them to the starting line of the EU accession process. The positive attitudes of those we spoke to in Mostar is likely related to Mostar's geographical and historical connection to Croatia, and the community's high comfort level with cross-border trade.

ENGLISH